

Climate Report 2023





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Funds SA Act
[Superannuation Funds Management Corporation
of South Australia Act 1995](#)

Funds SA Regulations
[Superannuation Funds Management Corporation
of South Australia Regulations 2010](#)

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A message from our CEO



John Piteo

In 2022, Funds SA published its 5-Pillar **Climate Risk Response Plan** outlining the initial actions it would take to manage the long-term financial risks and opportunities associated with climate change and the transition to Net Zero. One of those actions is to publish an annual climate report in alignment with the Taskforce on Climate-related Financial Disclosures (TCFD) framework. Our 5-pillar approach is closely aligned to the TCFD framework.

We are pleased to publish our inaugural Climate Report to display progress against our initial actions and highlight the work we are doing to respond to climate risk in our investment portfolio.

Funds SA is in the early stages of transitioning its investment portfolio to Net Zero by 2050. Getting to Net Zero by 2050 and supporting a 45% reduction in global emissions by 2030 consistent with the goals of the Paris Agreement means managing the emissions of our investment portfolio and aligning our investments to a Net Zero by 2050 commitment.

The path to achieving Net Zero is not linear, and success is dependent on contributions from all sectors of the economy. We are delighted to highlight our successes over the past year. However, we have also sought to outline the data limitations we currently face as an asset owner. Without

fulsome data on the risks of climate change, we and others will face challenges to accurately measure progress towards Net Zero. For this reason we strongly support investment stewardship to drive better disclosure on material environmental, social and governance (ESG) issues, like climate risk.

We see great opportunities for building on the solid foundations we have set over the past 12 months as we look to develop the next phase of our approach to address climate risk in our investment portfolio. We look to the future with great optimism as we seek to achieve the best financial outcomes for our clients in South Australia.



John Piteo
Chief Executive Officer

Funds SA's 5-Pillar Climate Risk Response Plan

- 1 Governance & Culture**
Defining how investment decisions are made at Funds SA, including continuously improving our knowledge of the risks and opportunities of climate change. 
- 2 Investment Strategy**
Investment processes, including utilising scenario analysis to monitor and build portfolios that mitigate climate-related risks, identifying how different asset classes, sectors, industries and companies will be affected, and positioning the portfolio to invest for the future. 
- 3 Manager & Company Engagement**
Engagement with new and existing investment managers and highest risk companies to evaluate current practices and encourage the integration of climate change into decision making processes. 
- 4 Advocacy**
Engagement with industry bodies, corporate entities and service providers to improve practices and encourage the integration of climate-related risks and opportunities. 
- 5 Disclosure**
Ensuring transparency and open communication with clients and other stakeholders. 

Taskforce on Climate-related Financial Disclosures

The Taskforce on Climate-related Financial Disclosures (TCFD) was created by the Financial Stability Board to improve and standardise the reporting efforts of organisations on climate change. The recommendations are structured around four core elements and eleven recommended disclosure areas to better inform investors on climate risks and opportunities.¹

This report is Funds SA's inaugural disclosure against the TCFD framework. We note the release of the International Sustainability Standards Board (ISSB) IFRS S2 Climate-related Disclosures standard, and announcement that ISSB will assume responsibility for the monitoring of TCFD-aligned reporting. We anticipate our reporting will evolve with the consolidation of reporting standards.

It should be noted this report focuses on Funds SA's investment portfolio, and not its operations.



Governance

Our governance around climate-related risks and opportunities

A robust governance approach, with Board and Investment Team oversight and understanding of climate-related risks and opportunities underpins Funds SA's overall approach to climate change within its investments.

Board

Funds SA's Board is committed to managing climate change impacts in order to meet Funds SA's investment objectives, as well as fiduciary and regulatory obligations. The Board approves the policies that govern Funds SA's investment process, with those listed here explicitly considering climate change.

The Funds SA Board approved Funds SA's Climate Risk Response Plan (the Plan) in 2022 and is regularly updated on the actions the Investment Team has taken to implement the Plan.

Investment Team

Funds SA has a group of senior Investment Team members that meets regularly to monitor the progress of the Plan, discuss the latest climate analysis, and to guide the direction of Funds SA's response to climate change.

The Investment Team's due diligence on climate-related risks and opportunities is considered by Funds SA's Investment Committee for new manager appointments and direct investments.

Policies

- Responsible Investment Policy
- Proxy Voting Approach and Guidelines
- Climate Change Position Statement
- Climate Risk Response Plan



¹Final 2017 Recommendations of the TCFD

Strategy

The actual and potential impacts of climate-related risks and opportunities for our investment strategies.

Climate risks

Funds SA's governing legislation, the *Superannuation Funds Management Corporation of South Australia Act 1995* (SA), stipulates an objective: 'to achieve the highest return possible on investment of the funds, while having proper regard for the need to maintain the risks relating to investment at an acceptable level and the need for liquidity in the funds.'

Funds SA recognises that climate change presents a systemic risk impacting potential investment returns over the coming decades. Across the globe, economies are decarbonising, and this brings significant risk and opportunity for investors. Our awareness and understanding of these risks, and how they might impact our investments is developed through review of the latest scientific and financial analysis on climate change, and by leveraging our relationships with investment managers and with other organisations. This forms our determination of

the materiality of specific climate risks when considering an investment opportunity, as well as ongoing monitoring of our investment portfolio.

We acknowledge that climate risk is inherently connected to social issues and a 'Just Transition' is key to ensuring communities aren't left behind as the world decarbonises.

Within Funds SA's Risk Management Framework, ESG risk is recognised as a driver of investment risk and included in our Corporate Risk Register. The key controls related to climate risks, are the actions described in the Responsible Investment Policy and the Climate Risk Response Plan.

The following table outlines the types of climate risk that Funds SA may consider in its investment activities.



Transition risks to Funds SA's investments

Policy

Short to 2030	Medium 2030-2050	Long 2050 +
---------------	------------------	-------------

✓	✓	✓
---	---	---

Risk of evolving policy landscape which constrains actions that adversely contribute to climate change. This may include carbon pricing mechanisms, the removal of subsidies for high-emitting industries, or increased reporting requirements.

This can impact investment value through additional costs for high-emitting industries.

Litigation

✓	✓	✓
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Risk of litigation brought by stakeholders against a company for failing to mitigate or adapt to the impacts of climate change. Climate-related litigation claims are being brought more frequently.

This can impact investment value through increased legal costs and fines, as well as court-mandated action which may require additional capital or operational expenditure.

Technology

✓	✓	✓
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Risk of new technology displacing existing methods and systems. The timing of technology development and deployment is a key uncertainty in assessing this risk.

This can impact investment value through lost market share for incumbent companies or potential obsolescence if technological advancements are not adopted in line with disruptors.

Market

✓	✓	✓
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Risk of shifting supply and demand for products (including commodities) and services as the transition to a low-carbon economy progresses and climate-related risks are increasingly factored in by stakeholders.

This can impact investment value through decreased demand for a company's goods and/or services.

Reputational

✓	✓	✓
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Reputational risk may arise for companies and their shareholders, as a result of failing to align to a credible Net Zero pathway or continuing their operations in high-emitting industries. This may impact a company's social license to operate, with consumers disengaging from or publicly criticising the company.

This can impact investment value through the loss of customers or fall in share price, perpetrated by negative publicity.

Stranded Asset

✓	✓	✓
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Risk of company assets not being able to produce a viable economic return as their economic life is curtailed due to a combination of the above risks.

This can impact investment value as assets are written down or sold at a significant discount.

Physical risks to Funds SA's investments

Acute

✓	✓	✓
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Risk of more frequent severe weather events such as floods, hail, bushfires, cyclones and hurricanes.

This can impact investment value through direct damage to physical assets that need to be repaired or replaced or cannot be sold. These impacts may extend to a company's supply chain and supporting infrastructure.

Chronic

✓	✓
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Risk of longer-term shifts in climate patterns including sustained higher temperatures leading to sea-level rise and/or heat waves.

This can impact investment value through increased adaptation costs such as on building attributes, and through energy use to regulate temperature. Water quality and availability may bring additional challenges.

Funds SA's approach to assessing climate risk

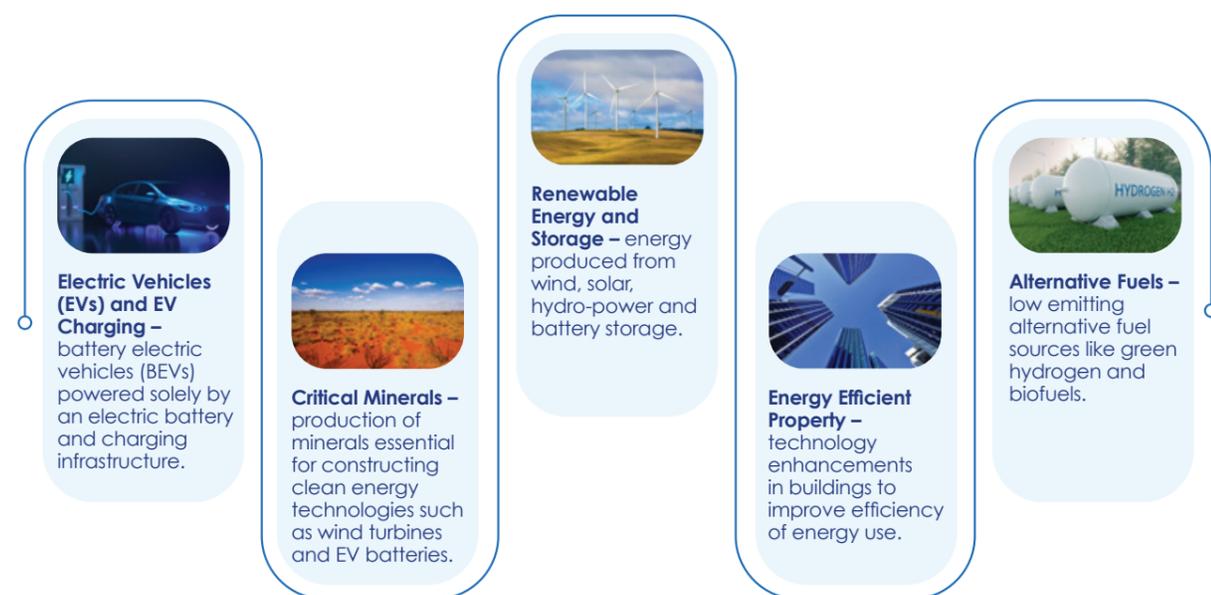
Climate risk is initially assessed as part of Funds SA's investment due diligence. As can be seen in the transition and physical risks table, there are many types of climate risk that Funds SA may consider. As a global investor, we use diversification to reduce the risks associated with investment returns. However, this means that we are exposed to varying levels of climate risk across different geographies, sectors and companies.

Funds SA's approach to assessing climate risk in our investment portfolio is informed by the climate approach of our global network of investment managers. Funds SA's due diligence on investment managers examines each manager's understanding of risk exposure in their investment universe, and their ability to mitigate these risks.

For direct investments made by Funds SA, climate due diligence is conducted on the investment manager and the specific investment at a detailed level that considers sector and geographical nuances. Where climate risk is considered material and unmitigated, our asset class teams may decide not to make the investment. Our Investment Committee reviews the risks associated with an investment and recommends whether to proceed, subject to Funds SA's investment delegation framework. Our approach to ongoing monitoring is covered in the Risk Management section.

Opportunities

The transition to Net Zero is a systemic challenge that presents vast opportunities for investors. Innovations in nascent sectors, disruptors to established industries and incumbent companies who are transforming their operations all present as significant prospects for investors to channel capital toward. Our existing investment managers are tapping into this opportunity set, and we maintain our awareness of new developments by meeting with managers investing in climate-related opportunities such as those outlined below.



Funding for climate-related investment opportunities has risen significantly in the past decade. To get to Net Zero by 2050, investment needs to increase even further. The energy sector is perhaps the most critical area for investment, on both the supply and demand side. The deployment of additional renewable energy generation is vital to decarbonising the energy sector and the industries that depend on it.

Palisade's Renewable Energy Fund in Funds SA's Socially Responsible Investment (SRI) option

Funds SA offers a Socially Responsible Investment option that invests in climate solutions including Palisade's Renewable Energy Fund. This is a portfolio of utility scale wind and solar farms across Australia totalling 1.2GW. These assets have long-term agreements with energy retailers providing renewable energy to homes and businesses across Australia. In total, the assets can generate power for over 600,000 homes. Waterloo Wind Farm, Hallett Wind Farm and Snowtown 2 Wind Farm are all located in regional South Australia.



Funds SA's resilience to future climate change scenarios

Given the complexity of climate change impacts and the significant uncertainty on how the transition path will shape economic and investment outcomes, a scenarios stress testing approach is used to assess risk and opportunity. The scenarios below are sourced from the International Energy Agency (IEA), the energy world's most authoritative source of analysis and projections. The IEA's 2022 World Energy Outlook provides objective data, analysis and insights into global energy supply and demand in different climate scenarios and the implications for energy security, climate targets and economic development.

Current Path 3°C Scenario

Adapted from IEA Stated Policies Scenario (STEPS). Reflects announced policy intentions and targets, with no material policy uplift.

Sustained Action 2°C Scenario

Adapted from IEA Announced Pledges Scenario (APS). Reflects a surge in clean energy policies and investment that puts the energy system on track to meet UN Sustainable Development Goals and global emissions on track for Net Zero by 2070.

Net Zero by 2050 1.5°C Scenario

Adapted from IEA Net Zero Emissions by 2050 Scenario (NZE). Reflects a level of action across all geographies which will put the world on track for Net Zero by 2050.

In June 2023, our asset consultant assessed the performance of our Balanced Tax-Exempt investment option (Balanced option) against these scenarios out to 2030 and 2040². The estimated impact on investment returns was based on projected impacts to Gross Domestic Product (GDP) and estimated future exposure to 'green' and 'brown' assets in each asset class.

'Green' assets are those likely to benefit from the low carbon transition such as renewable energy or sustainable agriculture solutions. 'Brown' assets are those that are likely to face decreasing demand as the transition progresses such as fossil fuels.

Key findings for our Balanced option

Funds SA considers current global policy settings in constructing its investment strategy. As government policy evolves to ensure national climate commitments are met, we expect our investment strategy to adapt as appropriate.

Our scenario analysis, undertaken in June 2023, confirms that our current portfolio is positioned to benefit from the **Sustained Action** Scenario out to 2040. However, we recognise that under each scenario the climate transition will favour some of our investments and will be unfavourable to others.

The modelling also indicates that under the **Current Path** Scenario, the investment returns of our current portfolio may be negatively impacted. This highlights that the current level of action on climate risk does not favour investment returns.

The **Net Zero by 2050** Scenario derived from the IEA reflects rapid decarbonisation — a pathway that is not visible in the economy today. As the transition progresses, Funds SA may shape its investment strategies to align with this scenario in line with the actions outlined in our Climate Risk Response Plan.

Key actions in our Climate Risk Response Plan

- 1 Progressively incorporate climate risks and opportunities into portfolio construction and asset allocation decisions.
- 2 Actively seek new opportunities and investments that are part of the solution to achieve a Net Zero by 2050 outcome.
- 3 Engage with our investment managers to assess their climate transition plans and commit to Net Zero by 2050.
- 4 Prioritise engagements with high-risk companies to assess their climate transition plans and encourage them to commit to Net Zero by 2050.

²This is a work derived by JANA Investment Advisers Pty Ltd from IEA material and JANA Investment Advisers Pty Ltd is solely liable and responsible for this derived work. The derived work is not endorsed by the IEA in any manner.



Risk Management

The processes we use to identify, assess and manage climate-related risks.

Our managers

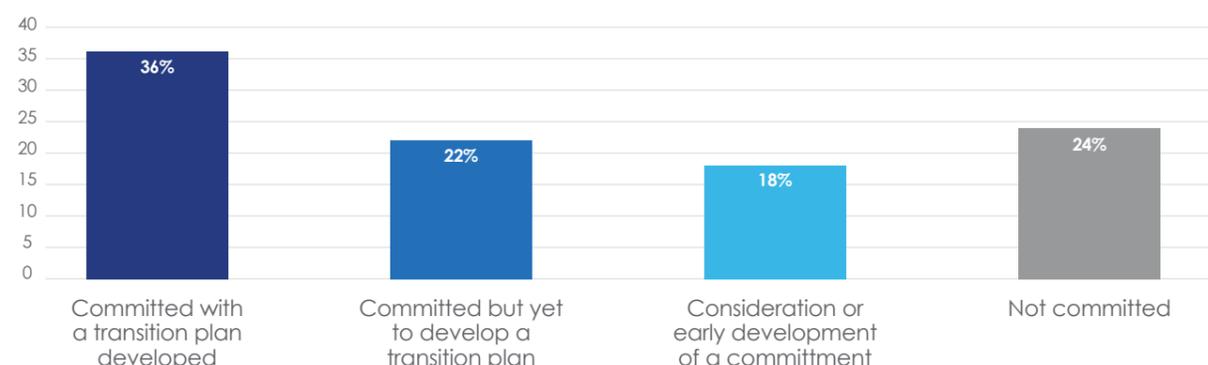
Funds SA predominantly utilises investment managers for implementation of investment activities. As part of our investment due diligence, we require investment managers to describe their approach to managing ESG risks, including climate-related risks. We do this to establish the extent to which these risks are factored into each investment manager's investment due diligence activities, integrated into their investment decision-making and monitored in portfolios. We consider the strength of this approach in our capital allocation decisions, and the information is used to monitor our exposure to climate risks across our investment portfolio.

We engage with, and monitor our investment managers on an ongoing basis, including through an ESG Survey that is conducted every two years. In 2022, we asked our investment managers to provide more detail on their approach to managing climate-related risks and whether they had committed to reaching Net Zero by 2050.³ The results are shown below.

We recognise that the climate approaches of investment managers are at different stages of maturity depending on the asset class. For example, Private Market managers are faced with poor data availability compared to public markets, making target setting challenging. We aim to encourage our investment managers to commit to Net Zero and plan further engagement with our managers that are 'Not committed' to understand the barriers to setting a commitment.

Where Funds SA is making a direct investment (being investments where Funds SA has control over material decisions), further due diligence is conducted to understand the potential investment risks. Funds SA utilises industry-recognised frameworks to guide the assessment of these risk factors across different industries, sectors, and asset types.

Proportion of funds under management with a commitment to Net Zero by 2050



Source: Funds SA, based on information provided to it by its external investment managers in 2022.

³Managers with strategies in multiple asset classes are represented per asset class in these figures.

Phasing out investments in thermal coal

In 2022, we commenced a phased exclusion of companies involved in thermal coal mining and extraction, except where a credible transition plan exists for the company or asset. We have done this to reduce our exposure to transition risk and specifically, stranded asset risk. To date, we have achieved the following:

- ✓ Excluded from our listed equities discrete mandates, companies that are primarily⁴ involved in the production and mining of thermal coal. As at 30 June 2023, there were 19 international and 6 Australian companies identified as meeting this criteria and have been excluded from Funds SA's listed equities asset classes. This exclusion does not currently include companies that are held via pooled funds.
- ✓ Initiated the exclusion of companies involved in thermal coal mining and extraction from our listed debt portfolios.

Physical risk for our unlisted property and infrastructure assets

Funds SA formally assesses the actions being undertaken by all unlisted property and infrastructure investment managers via an annual climate-focused questionnaire. This requires investment managers to identify any specific assets that are potentially at "high risk" to the physical impacts of climate change. We use this information to monitor exposure to climate risks across our investment portfolio. Some of the measures being undertaken to mitigate or adapt the assets viewed as "high risk" include vegetation management to improve bushfire preparedness and moving critical infrastructure to higher levels to improve flood resilience.

During 2022, we held targeted meetings with most of Funds SA's unlisted property investment managers to understand their approach to identifying, mitigating and adapting assets to the physical risks of climate change. This engagement indicated robust consideration of the ESG risks that our Australian assets may be exposed to.

Socially Responsible Investment (SRI) option

Climate-based exclusions

Socially responsible considerations are core to the SRI option's investment approach.

For the SRI option, socially responsible investing means targeting investments that contribute to the betterment of society such as investment in climate change solutions. In addition, and where possible, the SRI option avoids investments that have the potential to cause or contribute to social harm, such as fossil fuels.

Revenue and product involvement thresholds apply in some cases so that companies with multiple business activities are not excluded for very low involvement. However, Funds SA maintains low revenue thresholds so these activities can generally be avoided.

The purpose of the SRI option is to deliver investment returns while employing an investment approach consistent with the SRI criteria. More information about the investment approach of the SRI option and the SRI Criteria can be found on the Funds SA website.

⁴Using the Coal and Consumable Fuels sub-industry according to the Global Industry Classification Standard (GICS) methodology.

Active ownership

As a signatory to the United Nations-supported Principles for Responsible Investment (PRI), Funds SA has committed to be an active owner and incorporate ESG issues into its ownership policies and practices. We do this through **proxy voting** and **engagement**.

While most of our proxy voting is delegated to our investment managers, Funds SA adopts a materiality approach that focuses on our top 50 holdings in the Australian equity market. Climate-related risk is increasingly raised as an issue to be considered at company Annual General Meetings, either as a consideration for the remuneration or election of Directors, or as a targeted shareholder proposal. Investment managers are a key source of information for our proxy voting decisions, which we consider alongside the advice of our proxy advisor. Many investment managers work directly with the management of companies to improve the risk management of the company. This allows investment managers to form considered views on how companies are addressing risks in their business model.

In 2023, we established a company engagement approach with climate risk being one of our engagement priorities. Our ESG Engagement Watchlist includes selected companies that we believe pose moderate to high ESG risk, if not appropriately managed. Currently, these companies are in the industries pictured, where emissions reduction is the most challenging.

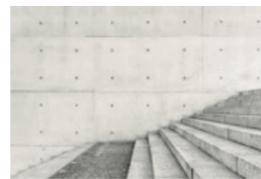
The objective of engaging with our investment managers on these specific companies is to validate that our investment manager is aware of the risks and to highlight whether or not they are taking action to mitigate these risks in the portfolio. This may be through engagement with the company, proxy voting, altering their position over time or pursuing an alternative strategy. While these companies will serve as a proxy for determining the broader engagement efforts of the investment manager, it is also key that the risks at these selected companies are understood and mitigated, due to their materiality.



Energy



Fertiliser & Chemicals



Cement



Diversified Mining



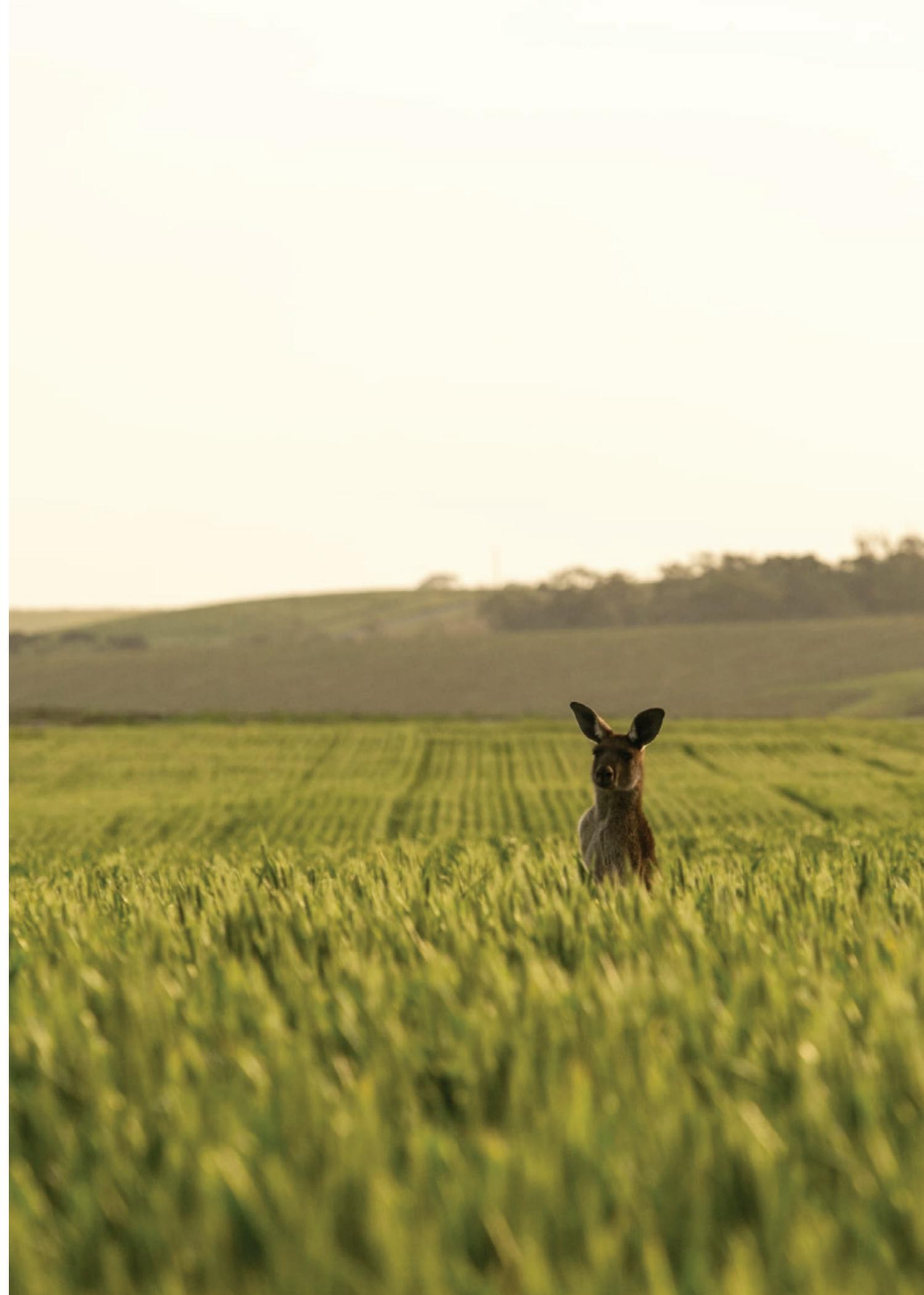
Steel

Oil and gas in the energy transition

Assessing the climate risk of our investment in companies that either produce or use oil and/or natural gas in their operations is complex. There is divided opinion on the role that these fuels will play in the transition to a low carbon economy, with multiple possible scenarios for future demand. While global demand for oil and gas is predicted to decrease under most IEA World Energy Outlook 2022 Scenarios, it is challenging to predict the pace of the energy transition around the world.

We continually seek to understand our investment managers' perspectives on investing in these companies. For the companies that we have engaged our managers on, and met directly, there is a clear imperative for them to avoid market and stranded asset risk by developing a credible transition plan. For these companies, this involves a combination of reducing emissions at their operations, diversifying into new products, or capturing their emissions using Carbon Capture and Storage (CCS) or Carbon Capture, Utilisation and Storage (CCUS) and offsetting emissions. We will seek to ensure that emissions reduction via offsetting is permanent, additional, and verified as outlined in the IEA's Net Zero by 2050: A Roadmap for the Global Energy Sector.

We will continually revisit this thesis as the transition progresses, and sector-level pathways become clearer in order to meet our commitment to reach Net Zero by 2050.



Metrics and Targets

The metrics and targets we use to assess and manage relevant climate-related risks and opportunities.

Data Challenges: a precursor to the following section

Our data providers, investee companies and those managing real assets are continually amending or improving their approach to reporting ESG data as capabilities and technology evolve. Although we conduct thorough evaluations on the data used in this report, we acknowledge there is a possibility that inaccuracies may exist in this reporting despite our best efforts to ensure reliability.

Companies or real asset managers may report for the first time in the coming years and this will change the shape of our emissions profile. This could impact how much we need to reduce our portfolio emissions to get to Net Zero. For investors like Funds SA, recommended reporting frameworks and protocols may also change over time. Therefore, we expect some degree of fluidity in what we report on.

One of our most significant challenges is that not all companies report their climate data. Our data providers use proxies for estimating emissions where they are not publicly reported. These proxies are based off industry averages, meaning the data is likely to be inexact.

Ultimately our commitment is to reach Net Zero emissions in our investment portfolio by 2050, and we aspire to be transparent about the challenges we are facing, and the actions we are taking to overcome these.

We measure progress towards achieving our Net Zero by 2050 commitment in a number of different ways. As a core metric, we monitor performance against our 5-Pillar Climate Risk Response Plan and specifically the twenty actions in Phase 1 that are either **Ongoing** , **Met**  or **To be Commenced** .

Whilst we have made significant progress against many actions in the first year of implementing our Plan, we recognise the ongoing work that is required in responding to climate risk. As a result, many of our actions will be ongoing as part of our business-as-usual approach.

Progress against our 5-Pillar Climate Risk Response Plan

Governance & Culture	Timeframe	Progress over the past year
Regular reporting to the Board on climate performance and portfolio climate risk exposures	2022 onwards 	We provided regular updates to the Board as well as a comprehensive annual update in early 2023. We have a group of senior investment team members, who meet to monitor progress against actions.
Utilise scientific and financial analysis to oversee, assess, and manage climate change-related risks and opportunities	2022 onwards 	We analysed reports from peak industry and scientific bodies, and discussed the findings at senior investment team meetings.
Ensure relevant Funds SA policies and plans are aligned with the commitment to Net Zero by 2050	2022 onwards 	We updated our Responsible Investment Policy, Proxy Voting Approach and Guidelines, and established our engagement approach in early 2023 to specifically include climate change.
Engage with our clients on Climate Risk Response Plan goals and activities	2022 	We engaged with our clients to explain the initial actions we are taking to address climate risk and highlight our approach to transition the investment portfolio to Net Zero Emissions by 2050.
Investment Strategy	Timeframe	Progress over the past year
Progressively incorporate climate risks and opportunities into portfolio construction and asset allocation decisions	2022 onwards 	We reviewed climate scenario modelling to understand the risks and opportunities of the current trajectory and to consider proposed actions. This will be updated frequently.
Review suitability of benchmarks to align with a Net Zero by 2050 pathway (incl. consider how benchmarks capture opportunities)	2023 	We conducted an initial scoping of suitable benchmarks and continue our work to determine the role of a benchmark that channels capital toward the transition, and not depriving capital from sectors and countries that need it.
Phase out thermal coal exposure except where a credible transition plan exists	2022 	We commenced the phase out of thermal coal using a revenue based GICS exclusion, or similar, in our listed equities and debt discrete mandates. We are now reviewing the next phase, including expanding our coverage across other asset classes.

Actively seek new opportunities and investments that are part of the solution to achieve a Net Zero by 2050 outcome	2022 onwards 	We reviewed 29 investment strategies with a climate focus in FY23. While this has been Met, it is now viewed as business-as-usual activity.
Build an average 5 Star NABERS Energy rating for office buildings and ensure that a credible transition plan is in place for lower rated buildings	2025 or sooner 	As at 30 June 2023, the average NABERS Energy rating for office buildings was 5.12, with 70 of a possible 82 buildings rated (remaining were ineligible).
Undertake analysis to better understand the resilience of the portfolio to the physical impacts of climate change	2022 onwards 	We surveyed our property and infrastructure managers on their approach to identification, mitigation, and adaptation to physical risks. We reviewed 'high risk' assets and determined that the actions that investment managers are taking, or are planning to take, to mitigate or adapt to risk were satisfactory.

Engagement	Timeframe	Progress over the past year
Expand our manager monitoring and engagement process to achieve alignment with Net Zero by 2050	2022 	We updated our biennial ESG Manager Survey to assess how investment managers are responding to climate-related risks, their Net Zero commitments and transition plans.
Engage with our investment managers to assess their climate transition plans	2022 onwards 	We developed new due diligence frameworks for our asset class teams to consistently assess investment manager alignment to Net Zero by 2050. While this has been Met as a newly established process, it is now viewed as business-as-usual activity.
Encourage our investment managers to commit to Net Zero by 2050	2023 onwards 	We collated the Net Zero commitments of all our investment managers and have begun engaging with those we consider to be lagging their peers.
Implement a company engagement process that is aligned with our Net Zero by 2050 commitment	2022 	We implemented an engagement approach for our investment managers to confirm their approach to engaging with companies on climate change is aligned to their commitments.
Prioritise engagements with high-risk companies to assess their climate transition plans	2023 	We conducted initial engagements with some of our high-risk, high-emitting companies, after engaging with our investment managers on their approach to engagement with these companies. While this has been Met as a newly established process, it is now viewed as business-as-usual activity.
Encourage high-risk companies owned to commit to Net Zero by 2050	2023 onwards 	To be implemented as part of our ongoing company engagement framework.
Reinforce company engagement goals via proxy voting activities	2022 	We expanded our assessment of climate-related proposals in our proxy voting activities and updated our Proxy Voting Approach and Guidelines to incorporate specific guidance on sustainability-related proposals including climate-related proposals. While this has been Met as a newly established process, it is now viewed as business-as-usual activity.

Advocacy	Timeframe	Progress over the past year
Increase partnerships with other investors to strengthen our collective voice and impact in engagements with companies owned	2023 onwards 	We chaired a meeting of Sovereign Wealth and Government investment funds to discuss a range of responsible investment activities, including in relation to climate risk. We commenced a review of partnerships that may support Funds SA's climate goals, including joining Climate Action 100+.

Disclosure	Timeframe	Progress over the past year
Publish the Climate Risk Response Plan, report on progress, and ongoing review of our Plan	2022 onwards 	We published the Climate Risk Response Plan on our website, produced this report on progress and commenced initial work on the second phase of the Plan.
Publish an annual climate risk report in alignment with the TCFD framework	2023 onwards 	This is our first annual climate risk report which involved developing a method to assess portfolio alignment to Net Zero by 2050, collating and improving our climate-related data.

Emissions Data

Reporting the Greenhouse Gas (GHG) emissions attributable to Funds SA's investments is a vital component of understanding our climate risk exposure. While these metrics only represent a snapshot in time, understanding the trajectory of our portfolio emissions is essential if we are to meet our commitment to Net Zero by 2050.

Emissions are divided into three scopes:

Scope 1

Direct GHG emissions that occur from sources owned or controlled by the reporting company, i.e., emissions from combustion in owned or controlled boilers, furnaces, vehicles, etc.

Scope 2

Indirect GHG emissions from the generation of purchased or acquired electricity, steam, heating, or cooling consumed by the reporting company. Scope 2 emissions physically occur at the facility where the electricity, steam, heating, or cooling is generated.

Scope 3

All other indirect GHG emissions (not included in Scope 2) that occur in the value chain of the reporting company. Scope 3 can be broken down into upstream emissions and downstream emissions.⁵

The Scope 1 and Scope 2 GHG emissions of Funds SA's investee companies and assets are known as our financed emissions.⁴ We use carbon dioxide equivalent (CO₂e) data for reporting, which factors in all GHG emissions. The methodologies⁵ for reporting Funds SA's financed emissions are displayed below, differing depending on asset type.

Listed Equities, Listed Property, Credit, Short-Term Fixed Interest and Unlisted Infrastructure

$$\frac{\text{Outstanding amount}}{\text{EVIC}^6 \text{ or Total company equity+debt}} \times \text{Company emissions}$$

Sovereign Bonds

$$\frac{\text{Exposure to sovereign bond (USD)}}{\text{PPP-adjusted GDP}^7 \text{ (international USD)}^8} \times \text{Sovereign production emissions}^9$$

Unlisted Property

$$\frac{\text{Outstanding amount}}{\text{Property Value}^{11}} \times \text{Building emissions}$$

Using data sourced from our data providers and our investment managers, we are able to report on the asset classes shown on the following page. Year-end reporting dates vary between companies and assets.

The data presented is at 30 June 2023 and excludes cash and derivatives. Assured data¹² has been provided by our Unlisted Property and Infrastructure investment managers, where available.

⁴ https://ghgprotocol.org/sites/default/files/standards_supporting/Chapter15.pdf

⁵ <https://carbonaccountingfinancials.com/files/downloads/PCAF-Global-GHG-Standard.pdf>

⁶ EVIC is Enterprise Value Including Cash

⁷ PPP-adjusted GDP (international USD) is an adjustment to the Gross Domestic Product of a country by the Purchasing Power Parity (PPP) rate to improve comparability. The PPP rate is the rate at which the currency of one country would have to be converted into that of another country to buy the same amounts of goods and services.

⁸ Data from the International Monetary Fund, World Economic Outlook Database, October 2023

⁹ EDGAR (Emissions Database for Global Atmospheric Research) Community GHG Database (a collaboration between the European Commission, Joint Research Centre (JRC), the International Energy Agency (IEA), and comprising IEA-EDGAR CO₂, EDGAR CH₄, EDGAR N₂O, EDGAR F-GASES version 8.0, (2023) European Commission, EDGAR report webpage (https://edgar.jrc.ec.europa.eu/report_2023) and EDGARv8.0 website (https://edgar.jrc.ec.europa.eu/dataset_ghg80) and/or relevant reports. Sovereign production emissions sourced from Emissions Database for Global Atmospheric Research (EDGAR), that provides independent estimates of emissions produced domestically, including exports.

¹⁰ Coverage relates to buildings under the investment manager's operational control and excludes properties under development. Investment managers have either reported location-based or market-based emissions as defined by the GHG Protocol Scope 2 Guidance.

¹¹ Property value is calculated as at 30 June 2023

¹² Assured data is data that was verified through a third-party assurance process.

¹³ Investment managers have reported equity-adjusted emissions in this asset class given the type of infrastructure assets held. Funds SA will explore options to report PCAF-aligned emissions for these investment managers in future reporting periods.

Financed emissions for Funds SA's asset classes

Asset classes	Coverage by Market Value %			Financed Emissions Tonnes CO ₂ e		
	FY21	FY22	FY23	FY21	FY22	FY23
Australian Equities	90.4	92.1	98.1	436,287	431,345	388,197
International Equities	93.9	94.5	97.0	310,061	235,872	205,667
Socially Responsible Equities	94.0	94.7	98.8	2,914	3,714	4,278
Credit	46.0	46.2	46.3	62,565	126,651	171,855
Short-Term Fixed Interest	17.2	48.0	42.4	8,516	27,570	37,860
Sovereign Bonds	99.9	99.9	99.8	790,407	595,432	577,724
Listed Property	99.1	100	100	1,395	1,355	745
Unlisted Property ¹⁰	100	100	100	10,679	7,620	8,535
Unlisted Infrastructure			67.9			41,757
Socially Responsible Infrastructure ¹³			99.9			384

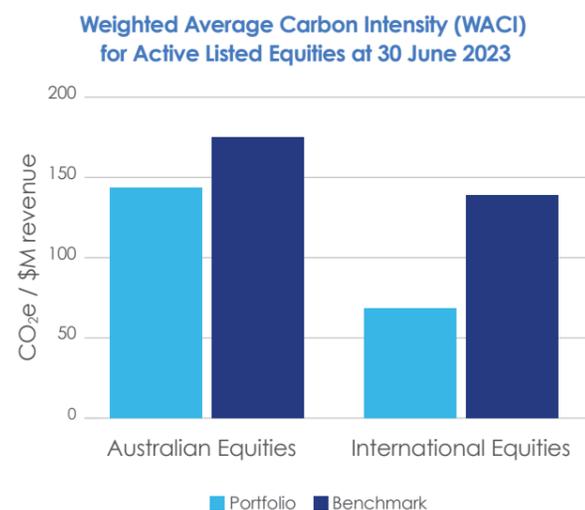
Source: MSCI Climate Change metrics. Portfolio data as at 30 June 2023. Coverage by Market Value is measured in respect to investments that may have emissions reporting. For example, the analysis excludes cash and derivative instruments.

Financed emissions in our two largest asset classes, Australian Equities and International Equities, have reduced significantly from FY21. This is a result of action taken by Funds SA's investment managers and investee companies prioritising emissions reduction to meet their near-term climate commitments. For the Credit and Short-Term Fixed Interest asset classes, financed emissions rose sharply from FY21 to FY22 as economies re-opened following the COVID-19 pandemic, and this increase moderated in FY23. A small number of high-emitting companies drove this increase and several of these companies are being engaged with as part of Funds SA's engagement approach. For Socially Responsible Equities, the modest increase in emissions was primarily driven by a small number of materials companies ramping up production in the wake of COVID-19. For Unlisted Property, financed emissions decreased materially from FY21 to FY22. Funds SA's investment managers continued to switch to renewable energy sources for base building electricity and improve overall energy efficiency. Renewable energy uptake continued into FY23, though Unlisted Property emissions rebounded as occupancy levels increased in certain precincts.

Our financed emissions for Sovereign Bonds include a degree of double counting, as the emissions generated by companies and assets in other asset classes are notionally included in the sovereign estimation model. Furthermore, we note that there is unavoidable misalignment in the data inputs - the emissions and GDP data are as at the end of the previous calendar year whereas our exposure to Sovereign Bonds is at the end of the financial year. For example, our Sovereign Bond exposures as at 30 June 2021 are reported against emissions and GDP as at the end of 2020, a point from which many economies began to emerge from the worst impacts of the COVID-19 pandemic. While global emissions have steadily risen since this time, our Sovereign Bond financed emissions has decreased materially. This is a result of reduced exposure to certain high-emitting sovereigns who have experienced PPP-adjusted GDP growth following the lows of the COVID-19 pandemic.

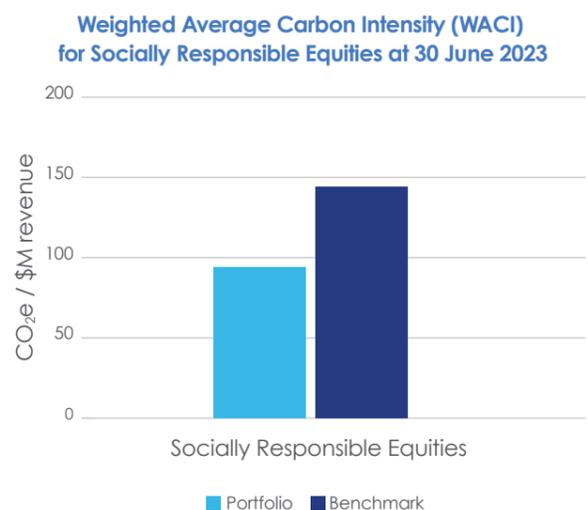
The Weighted Average Carbon Intensity (WACI) metric shown in these figures represents the weighted volume of carbon emissions per million dollars of revenue of a portfolio expressed in tonnes of CO₂e/\$M revenue.

The Active Australian Equities and Active International Equities asset classes have a carbon intensity below their respective blended benchmarks as at 30 June 2023. The blended benchmark consists of each underlying investment manager's performance benchmark, weighted by allocation within each asset class. This was driven in part by the stock selection by our investment managers and our progress in phasing out thermal coal.



The benchmark displayed for Socially Responsible Equities represents a portfolio without the SRI option's exclusions. The lower carbon intensity of the Socially Responsible Equities portfolio relative to this benchmark can be attributed to various exclusions, and not only those relating directly to climate change.

92% of securities in the Active Australian Equities and 66% of Active International Equities (including emerging markets) have emissions data available, while close to 99% of the securities in the Socially Responsible Equities portfolio report their emissions.



Source: Funds SA portfolio data as at 30 June 2023. Benchmarks used are: Australian Equities: 78% S&P/ASX 300 Accumulation Index + 12% S&P/ASX MidCap50 Small Ordinaries 70/30 Index + 10% S&P/ASX 20 Accumulation Index. International Equities: 61% MSCI World ex-Australia Index net dividends reinvested (unhedged) + 26% MSCI All Countries World Index ex-Australia net dividends reinvested (unhedged) + 10% MSCI Emerging Markets Index net dividends reinvested (unhedged) + Russell Microcap Growth Index total return (unhedged). Socially Responsible Equities: 53% MSCI World ex-Australia SRI + 47% MSCI Australia IMI Select SRI Screened.

Net Zero Alignment Pathway

To assess the progress of our underlying investments in transitioning to Net Zero by 2050, we have adopted a tailored approach based on methodology sourced from the Net Zero Investment Framework, developed by the Paris Aligned Investment Initiative and the Institutional Investor Group on Climate Change (IIGCC).

The assessment combines a number of criteria related to climate commitments and action. Satisfaction of these criteria determines the proportion of our investment portfolio in the five stages displayed below.

Our initial assessment of the Net Zero alignment of our investments is shown in the following table.

Climate-related data quality for listed securities is constantly improving and our data providers cross-verify these data points where possible.

However, we accept there is some degree of inaccuracy when trying to cover a large universe of global investments. Our initial assessment shows that more data is available in listed equity markets than for listed debt (Credit and Short-Term Fixed Interest), as observed in the 'No Data' column.



Funds SA's Net Zero Alignment Pathway

	No Data	Low Data Coverage, Low Emitting	Not Aligned	Committed to Aligning	Aligning	Aligned	Net Zero
Australian Equities	2%	10%	24%	12%	50%	1%	<1%
International Equities	9%	7%	20%	16%	45%	3%	0%
Socially Responsible Equities	0%	7%	21%	14%	55%	4%	0%
Credit	57%	6%	20%	5%	11%	1%	0%
Short-Term Fixed Interest	37%	5%	11%	8%	35%	4%	0%
Listed Property	0%	2%	33%	4%	61%	0%	0%

Please note that the percentages above may not sum to 100% due to rounding. Source: FactSet, MSCI Climate Change metrics. Portfolio data as at 30 June 2023.

Given the strict criteria utilised by Funds SA only a small proportion of our underlying investments are already 'Aligned' to Net Zero emissions, and we have determined that only one company has achieved Net Zero. To assess the achievement of Net Zero under our assessment criteria, we have sought to exclude the use of offsets where possible so companies, issuers and assets are assessed on decarbonisation within their operations.

The results of the initial assessment demonstrate that many of the sectors and geographies in which Funds SA invests are only beginning their path to Net Zero. This was largely our expectation for the markets we invest in. We have observed early progress from companies, issuers and assets that are either 'Committed to Aligning' or 'Aligning', but there is more that can be done to ensure they are aligned with the goals of the Paris Agreement.

We recognise that climate risk may be heightened in investments that are 'Not Aligned'. Our approach seeks progress towards alignment in collaboration with our investment managers. Funds SA's Climate Risk Response Plan outlines some of the actions we are taking to respond to this risk. The 'Low Data Coverage, Low Emitting' proportion represents investments where our data coverage is not adequate to assess alignment, and we have estimated the investment as low emitting based on the industry it operates in. This provides us with some insight into where the risk sits in our investment portfolio.

Data availability is either too low, or we have not yet established a methodology to determine alignment for Sovereign Debt, Unlisted Property, Unlisted Infrastructure, Private Equity, Hedge Funds and Alternatives.

We will continue to evaluate whether it is possible to report on these asset classes in future reporting periods.



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